North America

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Chief Executive,
North America

Our business in North America has three areas of activity: student transportation, transit and shuttle services.

We operate in 33 US states and three Canadian provinces.

The student transportation business operates through medium-term contracts awarded by local school boards to provide safe and reliable transport for students, and is the second largest private operator in North America.

Our transit business operates predominantly paratransit services across the USA.

Our shuttle business, operating predominantly through WeDriveU, offers corporate employee shuttle services and is also growing in the universities and hospital shuttle market.

Revenue
£869.2m
2019: £1,230.1m

Underlying Operating Profit
£12.4m
2019: £123.0m

Statutory Operating (Loss)/Profit
£(176.0)m
2019: £88.0m

Revenue
$1,116.0m
2019: $1,569.7m[1]

Underlying Operating Profit
$15.9m
2019: $157.0m[1]

Statutory Operating (Loss)/Profit
$(226.1)m
2019: $112.3m

Underlying Operating Margin
1.4%
2019: 10.0%

[1] Revenue and Underlying Operating Profit at constant currency, adjusting for Canadian Dollar to US Dollar foreign exchange rate movement in the year

Pre-Covid

North America was performing strongly ahead of the pandemic, with revenue up 16% in the first two months of the year, largely driven by continuing growth in our transit and shuttle businesses. The renewal and expansion of our two largest transit contracts in the fourth quarter of 2019 flowed through to the start of the year, while the acquisition of WeDriveU in April 2019 also boosted growth (and was itself growing revenue by over 20% in the first two months).

Navigating the crisis

As the first lockdown hit in March, we saw schools rapidly close with no services running from mid-March through to the end of the 2019/20 school year, while demand for our transit and shuttle services fell dramatically in the second quarter with volumes declining by around 75% and 85% respectively at the low point. As the second wave of Covid-19 cases hit in July, we saw significant delays to the school start back, with only 26% of schools returning fully. Whilst we have secured significant revenue from customers where services have not operated, this has resulted in a decline in revenue of 29% for the year. A series of measures were taken to reduce costs, which helped to deliver

Underlying Operating Profit of $15.9 million (2019: $157.0m) despite revenue declining by over $450 million. After accounting for separately disclosed items of $242.0 million, of which $200.1 million represented one-off Covid-related exceptional costs (detailed on page 24) the segmental result for the year was an operating loss of $226.1 million (2019: profit of $112.3m).

Protecting staff and customers

Our first priority was to protect our employees and customers, and to that end we rapidly implemented a number of measures:

- rapid provision of PPE and revised cleaning protocols;
- setting up the ‘coronainfo’ service to share our response to the virus and educate our employees on how to prevent its spread;
- establishing a crisis reporting protocol for all Covid-19 positive tests as well as potential exposures;
- establishing daily screening procedures to prevent those with symptoms from entering our workplace and criteria they must certify prior to returning to the workplace;
- establishing and communicating social distancing guidelines and maximum capacities for each work area;
- creating customised Covid-19 Prevention Plans at each depot;
- working with districts to establish protocols for social distancing and provision of sanitiser on our vehicles;
- thorough disinfecting of each bus twice daily and conducting spot-disinfecting of high-touch areas on the vehicle during routes; and
- spot-checks to enforce district and client procedures for wearing of masks by passengers.

Securing support

In school bus, we immediately engaged our customers on a contract by contract basis, negotiating and securing 61% of pre-Covid revenues for the second quarter. Ahead of the start back to the new school year, we agreed a tiered approach with any customers not returning to full classroom operating, explicitly linking services retained to revenue secured and temporarily laying off staff where revenue support was not forthcoming. Through the new school year we secured 73% of revenue with around 68% of services running in Q3, rising to 75% in Q4, through a combination of traditional and hybrid (mixture of traditional and online) learning.

In our transit operations, we worked with customers to amend contracts to allow for more flexibility to respond to rapid changes in volumes and demand including re-balancing of fixed and variable components of our remuneration. We renewed and expanded our Boston contract in 2020 with 150 more (customer supplied) vehicles and renegotiated contracts in Chicago, moving to a fixed fee plus variable rate model to mitigate risk under new or changing service levels. For the year as a whole across Transit, we ran around 61% of service (up to 72% by the year end) and secured 80% of pre-Covid revenue. In shuttle, the strength of our customer relationships saw us secure 80% of pre-Covid revenue despite only 24% of services operating.

We received a total of $24 million in government grants under the US CARES Act and the Canadian Emergency Wage Subsidy programme, with these grants helping to support the continued employment and retention of our drivers and support staff during the periods of reduction in service caused by the pandemic.

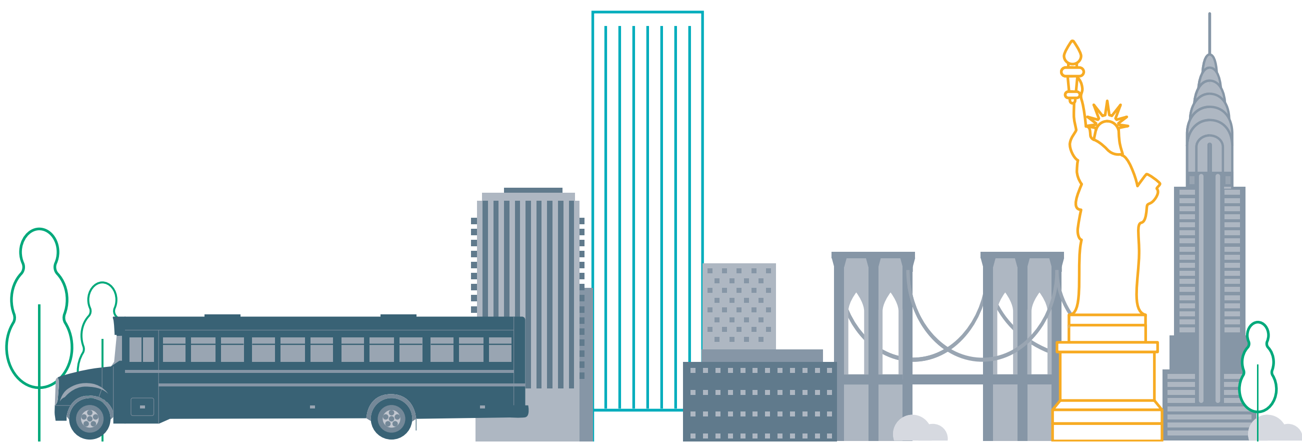
Reducing the cost base

We took swift action to reduce variable costs in line with service reductions. Where customers have not paid to retain staff, employees have been temporarily laid off, benefitting from improved welfare payments during the pandemic. At peak during the second quarter of 2020, we had temporarily laid off nearly 24,000 of our employees (over 80% of our workforce). In addition to flexing variable costs, we removed $20 million of annualised fixed costs, predominantly through a reduction in headcount in central and support roles. During the year we undertook a full review of the contracts within our transit operations, and have taken steps to sell or shut down those operations where we do not believe that we can recover the impact of the pandemic in a reasonable period of time. The contracts in this category related to regional coach, retail taxi operations and some low margin fixed route contracts.

Supporting the community

Through these testing times we have also supported our local communities in many ways, including:

- the delivery of over half a million meals across a number of states to vulnerable people and families in need;
- delivery of school homework packs and lesson plans in Tennessee and Kansas; and
- providing shuttle services for key workers to hospitals in Chicago and employees in the biotech and manufacturing sectors in California.



Preparing for the future

Clearly, the new administration's pledge to get children back into schools in its first 100 days is a very positive development, as is the desire to electrify the entire nation's fleet of school buses.
Funding packages are being finalised to help drive both of these outcomes.

In addition to the cost reductions noted above that will continue to provide a benefit in 2021, we have continued to win and retain contracts. In addition, although revenue will be reduced as a result of the transit exits, the elimination of loss-making and low margin contracts as well as the impact of restructuring and sustainable cost control will improve ongoing profitability.

We won significant new school bus contracts in Boise, Idaho (150 buses); Fairbanks, Alaska (10-year contract, 150 buses); a 90-bus contract in Oakland, California; a 70-bus contract in Norwalk, Connecticut; a 100-bus contract in House Springs, Missouri; and most recently another 10-year contract in Alaska which starts in 2022. In addition, we won a 100-bus school bus contract where a small operator went into liquidation (in New York) and another where a competitor fell out with the customer in dealing with Covid-19 pressures (in Michigan, 60 buses). We also won a capex-light paratransit contract in Fresno, California, for up to five years. These wins were partially offset by losses of contracts where we could not meet expected returns thresholds; our overall retention rate was 91%.

In terms of school bus bidding, during the 2020/21 bid season we secured rate increases on expiring contracts of 3.8% which translated into 3.1% across the full portfolio, compared with average wage increases of 2.7%. In the current bid season for the school year 2021/22, 28% of the portfolio is expected to go to bid with some likely to negotiate extended contracts, and initial signs are positive on both pricing and wage demands. Earlier in the year, we saw an increase in the number of school boards contacting us to explore potential outsourcing of their in-house services. Not surprisingly, in the last few months, school boards have focused on the day-to-day challenges of school restart and changing requirements in the face of rising Covid cases. Going forward, we believe that the pressures brought about by Covid-19 with regard to logistical challenges and school board budgets are likely to see some school boards move to outsource their school bus services. This, in combination with the ongoing pressure on smaller operators, should provide opportunities for future growth.

We continue to see plenty of growth opportunities in our shuttle business, where our customers are continuing to grow and are taking on additional office space to accommodate a growing workforce, despite some level of continued home-working. We have continued to win new shuttle contracts, most notably a five-year contract with Genentech, as well as a five-year contract with Gilead Sciences (further expanding our reach into the pharmaceutical sector), and have increased our exposure to the universities sector, winning a five-year contract with Princeton University. We see significant scope to expand in both the universities and hospitals sectors, with a strong pipeline of bid opportunities in the next 12 months.

Building on our tradition of operational excellence, we have initiated an ambitious programme – 'Driving Excellence' – to optimise and standardise operations across all of our school bus depots in 2021 and believe that the elimination of waste, improved asset utilisation, direct and indirect cost reduction, and process simplification and standardisation can deliver annualised benefits of around $40 million once fully implemented.

Finally, significant funding packages have been made available under the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSA), December 2020, which will underpin the profitable recovery in our sectors:

- the extension and expansion of the Employee Retention Tax Credit (ERTC) will help to maintain the flexibility in the cost base to respond to changing service across schools;
- transportation-specific packages include funding for multiple modes of transport, the most pertinent to us being $2 billion in relief for coaches and school buses; and $14 billion to provide operational aid to transit agencies; and
- education funding of $82 billion to be used on a variety of services that underpin the ongoing functionality of school districts, colleges and universities.

In addition there are numerous local funding packages to assist with the electrification of the fleet.